



Financial Position and Long-Term Planning

November 2019
Board of Selectmen and Advisory Committee Presentation



Context

- **The Town has a number of large capital needs due to:**
 - Assets reaching/reached the end of their useful life
 - Changing demographics
 - Sea level rise
- **Capital projects currently under consideration include:**
 - Foster School
 - North Fire Station
 - South Fire Station
 - Town Hall (Police, Senior Center, Recreation, Administration)
 - Harbor – Wharves and Sea Walls
 - South Shore Country Club
- **Additional projects could include the Library, other school projects, and recommendations resulting from Master Plan efforts underway**
 - Town
 - Recreation
 - Affordable Housing
- **Advisory Committee Chair requested update to 2018 presentation to inform budget and warrant article discussions and decisions**



Agenda

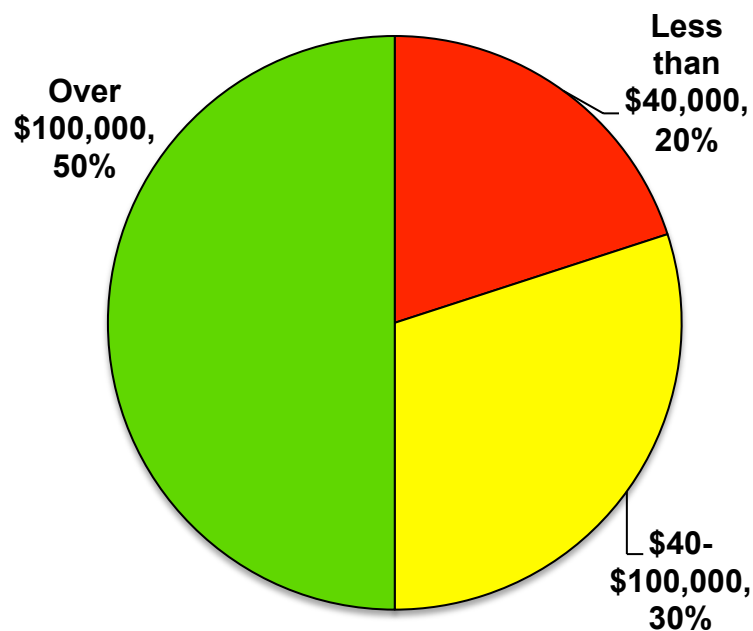
- **Background**
- **Current Situation**
- **Tax impact of new debt**
- **Conclusions**

Background: Hingham Demographics



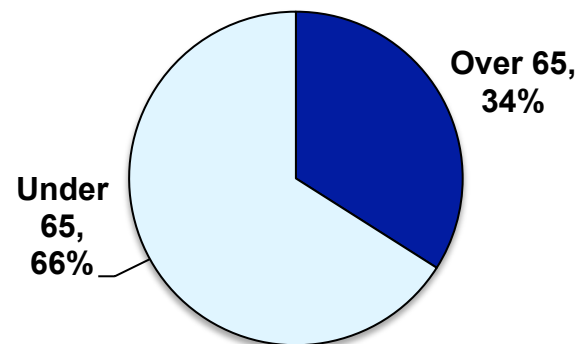
50% of Households have annual income < \$100,000 per year

Annual Household Income

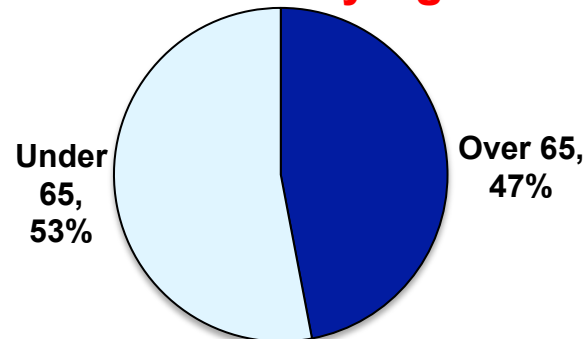


By 2020, 47% of Hingham households will have members aged 65+

2010 Households by Age



2020 Projected Households by Age



We have one of the lowest tax rates of our benchmark communities



Municipality	Residential Tax Rate per \$1,000 in assessed value
Rockland	\$17.92
Norwell	\$16.40
Andover	\$15.27
Westwood	\$14.65
Concord*	\$14.19
Dedham	\$14.15
Lexington	\$14.12
Scituate	\$13.74
Milton	\$13.18
Hull	\$13.05
Cohasset	\$12.90
Weston	\$12.59
Canton	\$12.40
Needham	\$12.39
Weymouth	\$12.12
Winchester	\$12.11
Hingham	\$11.81
Wellesley	\$11.57
Marblehead	\$10.74
Braintree	\$10.09

When considering benchmark data, cannot only look at one statistic and draw conclusions – more analysis is needed to draw meaningful conclusions

Total tax levy and average single family tax bill: Hingham vs. benchmark communities



Municipality	Total Tax Levy in \$
Lexington	186,201,054
Andover	145,370,283
Needham	141,893,986
Wellesley	141,050,299
Weymouth	106,718,655
Winchester	92,316,450
Concord	91,291,587
Braintree	91,061,619
Dedham	86,602,476
Hingham	83,822,478
Milton	82,348,069
Canton	77,438,400
Westwood	76,955,697
Weston	76,876,659
Marblehead	67,829,212
Scituate	63,900,669
Norwell	44,519,863
Cohasset	38,742,774
Rockland	37,958,988
Hull	29,321,833

Municipality	Average Single Family Tax Bill
Weston	\$20,016
Wellesley	\$15,406
Lexington	\$14,834
Concord*	\$14,494
Winchester	\$13,083
Cohasset	\$12,627
Needham	\$11,402
Westwood	\$11,299
Norwell	\$10,499
Andover	\$ 9,973
Hingham	\$ 9,764
Milton	\$ 9,409
Marblehead	\$ 8,816
Scituate	\$ 7,915
Dedham	\$ 7,074
Canton	\$ 6,708
Hull	\$ 5,814
Rockland	\$ 5,702
Braintree	\$ 4,904
Weymouth	\$4,601

Tax levy based on tax rate and assessed value



Most of our tax levy comes from residential property taxes

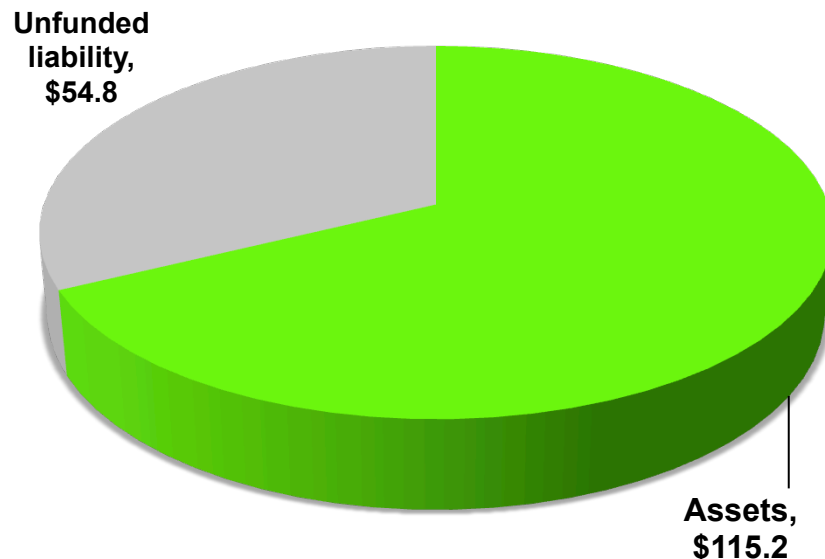
Municipality	% Total Tax Levy from Residential
Winchester	95.8%
Hull	95.7%
Scituate	95.7%
Weston	95.4%
Marblehead	94.8%
Milton	94.0%
Cohasset	93.0%
Concord	91.9%
Hingham	88.6%
Wellesley	87.4%
Norwell	85.4%
Rockland	80.3%
Lexington	80.2%
Weymouth	78.7%
Needham	77.3%
Westwood	73.3%
Andover	71.6%
Dedham	67.9%
Braintree	63.0%
Canton	61.2%

Any new or higher property taxes will largely be borne by residential property owners – an important consideration when evaluating the cost of large capital projects

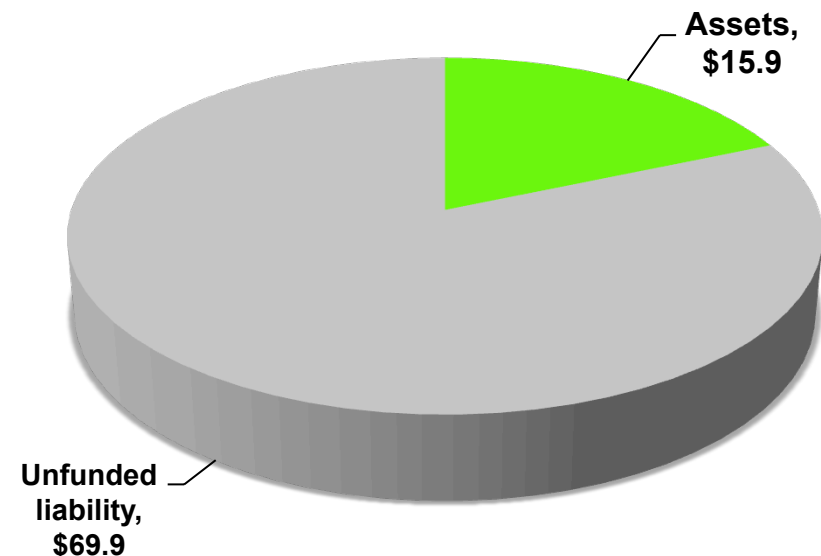
We continue to fund our long-term liabilities



Pension Liability (67.8% funded)



OPEB Liability (18.6% funded)

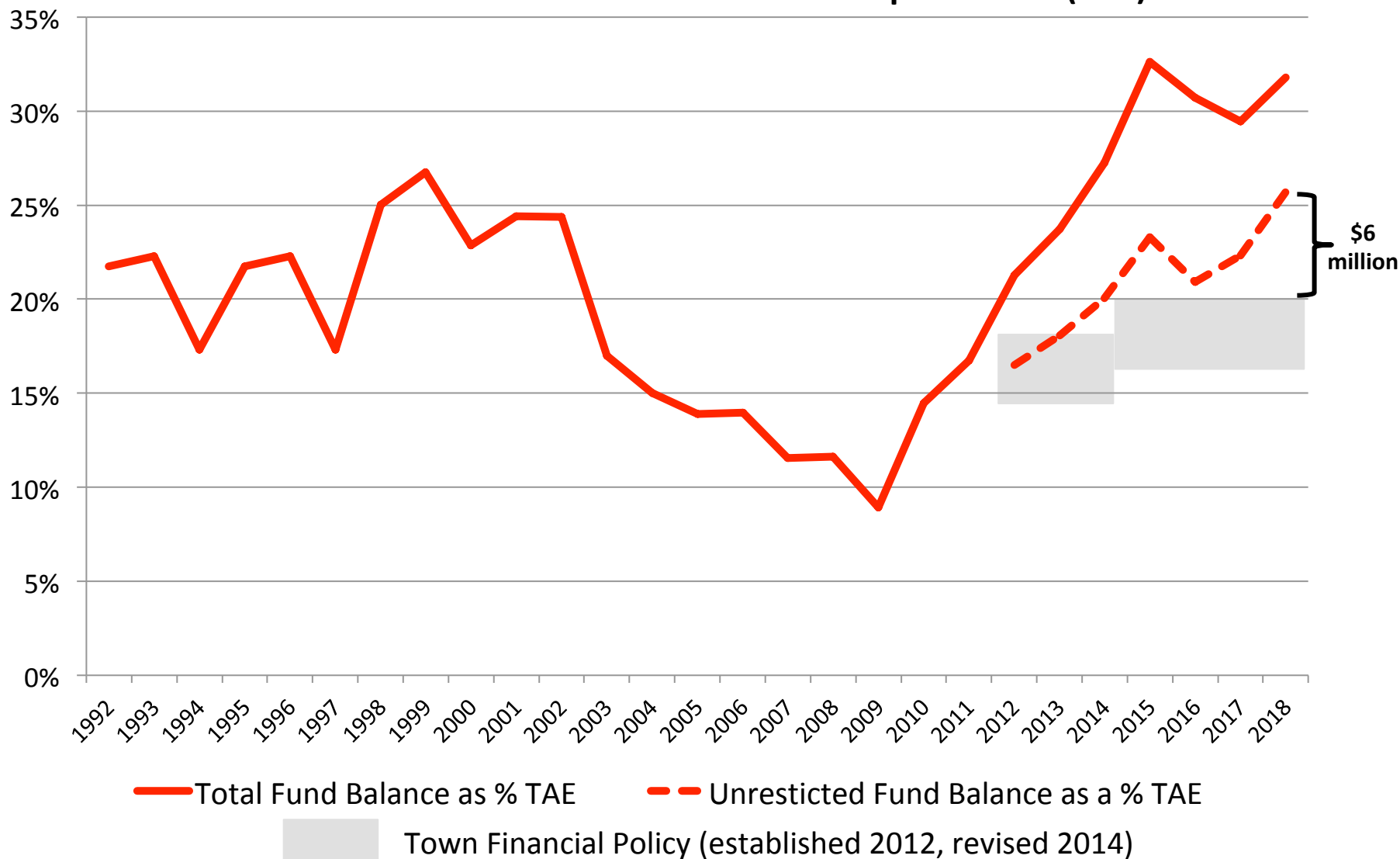


Need to continue funding to schedule

After several years of declining fund balance, our “rainy day” fund is once again at the level expected of a Aaa bond rated community



Fund Balance as a % of Total Annual Expenditures (TAE)

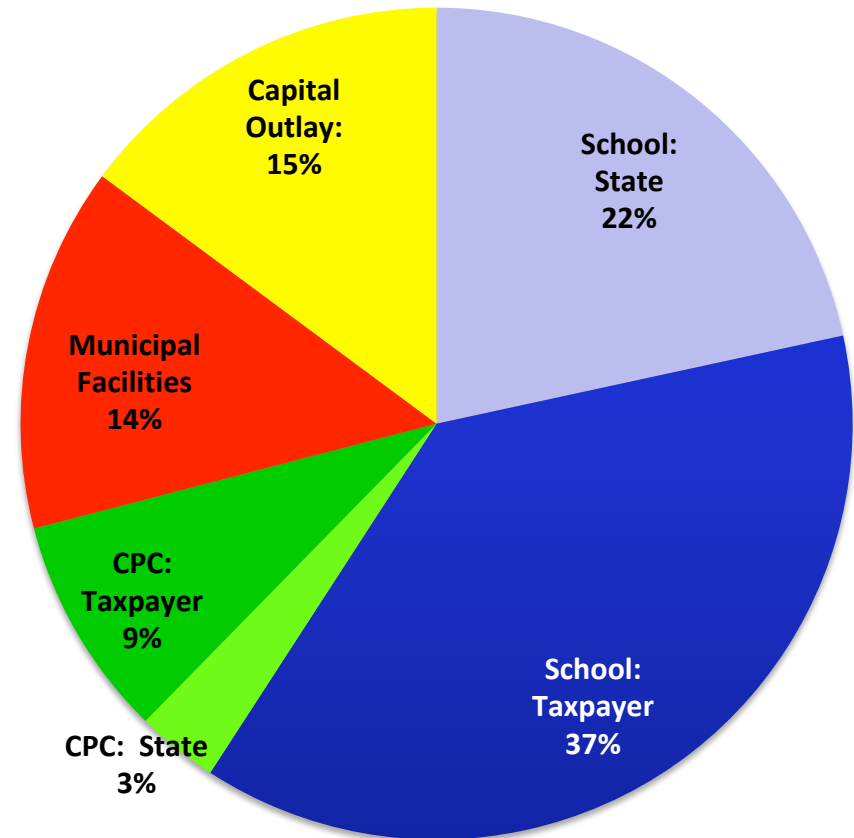


From 2000 to 2018, we've invested \$176.6 million in Town Assets – or just under \$10 million per year



Investment in Town Assets* 2000-2018

	Taxpayer Funded	State Funding	Total
School	\$ 68.5	\$ 33.6	\$102.1
Community Preservation	\$ 15.7	\$ 5.8	\$ 21.5
Municipal Facilities	\$ 25.9	-	\$ 25.9
Capital Outlay (Article 6)	\$ 27.1	-	\$ 27.1
Total Average Yearly	\$137.2 \$ 7.6	\$ 39.4 \$ 2.2	\$176.6 \$ 9.8



* Excludes investments in Enterprise Fund (SSCC), Sewer, Lincoln School Apts.

Source: Hingham Treasurer/Collector, CPC Reports



Partial List of Capital Projects: 2000 - 2018

- New East School
- PRS and Foster Renovations
- Middle School Modulares
- High School Track
- High School Fields
- New Middle School
- Library renovation
- Central Fire Station renovation
- DPW Facility/Carlson Fields
- Whitney Wharf
- Harbor Walkway
- Lehner property purchase
- Mobil Station land purchase (harbor)
- Heritage Museum (contribution to project)
- Cordage Factory "barn" (recreation)
- Roads
- Affordable Housing Trust Opportunity Fund
- Fort Hill St. Veterans Housing (contribution to project)
- Capital Outlay



Agenda

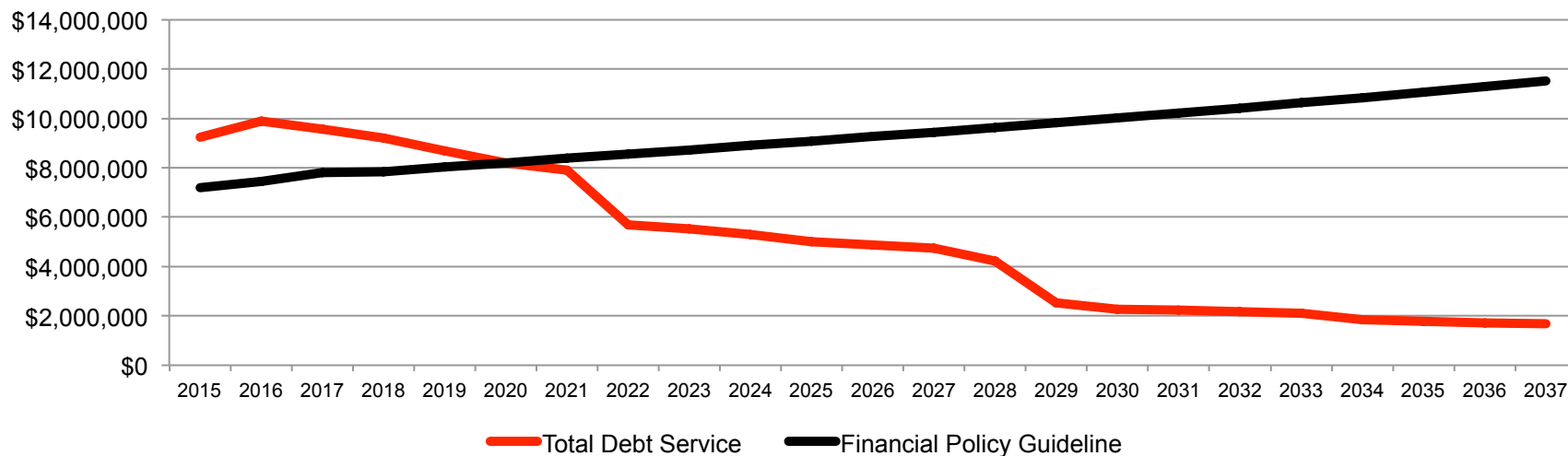
- Background
- Current Situation
- Tax impact of new debt
- Conclusions

Hingham's current outstanding debt is well below the Town's legal debt margin and just below the Town financial policy guideline



- Legal debt margin = **\$309.2 million**
 - Amount of debt the Town is able to issue under Mass General Laws
- Outstanding debt as of 6/30/18 = **\$61 million**
 - Non-Excluded – within the operating budget (no tax increase)
 - Excluded – outside the operating budget (temporary tax increase)
 - 20-year term, level principal payment (Year 1 = highest payment, declines every year after)
- Debt service is in line with our financial policy

Total Debt Service vs. Financial Policy Guideline

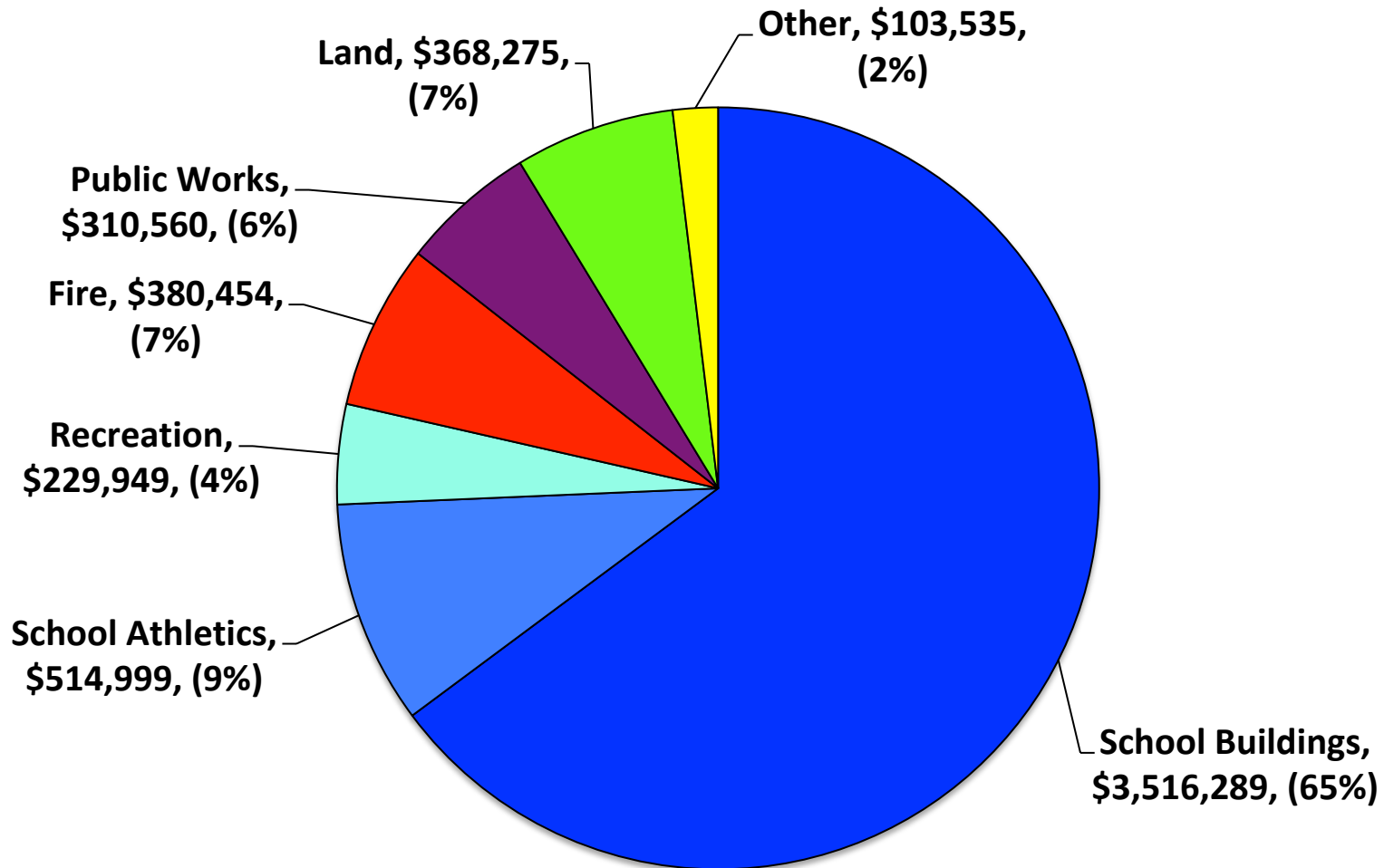


* Source: 2018 Town Comprehensive Annual Financial Report, Town Accountant

Our current year's budget includes \$5.4 million in Debt Service (both Excluded and Non-Excluded)



FY20 Total Debt Service for Taxpayer Funded Projects = \$5,424,061



Outstanding Excluded Debt is primarily School projects. Over half this debt will be retired by FY2029

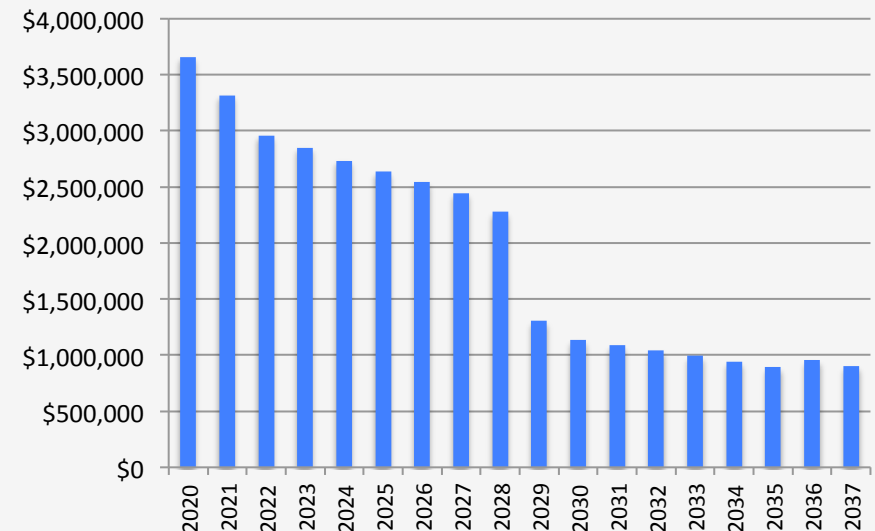


<u>Project</u>	<u>FY20 Debt Service</u>	<u>Debt Expires</u>
Sewer Weir River District	\$11,835	2020
Town Hall Renovation	\$31,950	2021
HS & So. Elem. (net of SBA reimbursements)	\$308,687	2021
High School Athletic Fields	\$92,061	2027
East Elementary School	\$1,050,370	2028
PRS & Foster Improvements	\$457,212	2029
2015 Middle School	\$2,478,856	2037

Total Excluded Debt Service	\$4,430,971	
Less: Bond Premium Allocation	\$(178,836)	
Meals tax revenue (Tax relief to offset Middle School)	\$(600,000)	

NET EXCLUDED DEBT SERVICE	\$3,652,135	

Annual Debt Service Expense: Excluded Debt



By FY2025, Excluded Debt Service declines by \$1 million. This is equivalent to \$12 million in new borrowing (amount of borrowing that is taxpayer neutral).

76% of outstanding Non-Excluded Debt* relates to municipal projects. Most of it expires by FY2029



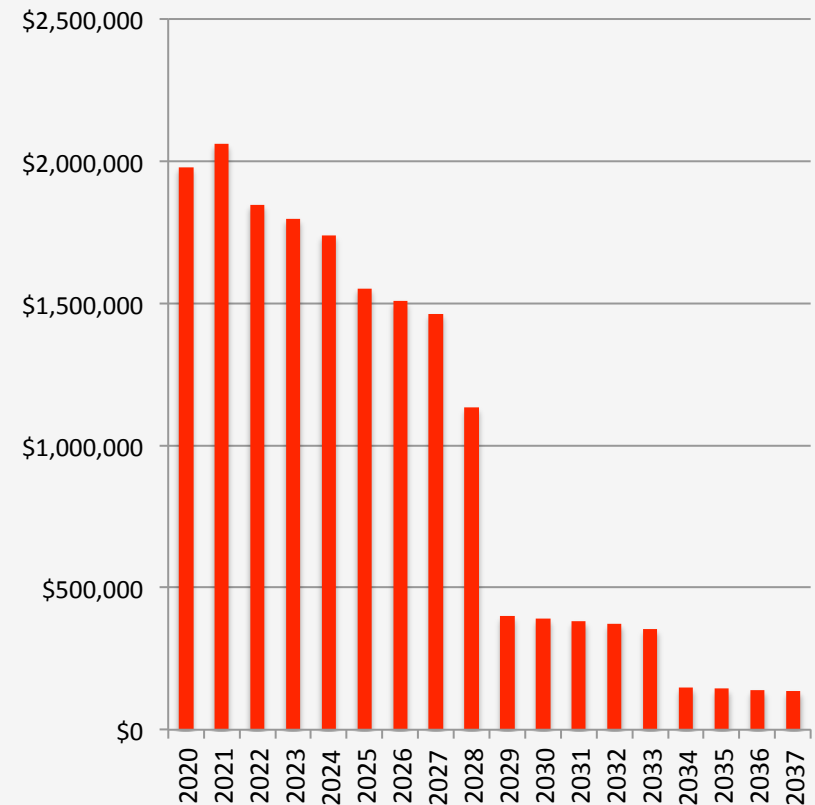
	<u>FY20 Debt Service</u>	<u>Debt Expires</u>
Library	\$27,800	2021
Town Hall	\$31,950	2021
Fire Trucks (2)	\$165,333	2024
Central Fire Station Renovation	\$215,121	2027
Wastewater Management Plan	\$24,561	2027
DPW Facility & Athletic Fields	\$459,898	2028
Hersey Land Acquisition	\$97,162	2028
School Fields Project	\$374,394	2028
School Fields Project-Turf Fields	\$48,544	2028
Land: Industrial Park	\$13,488	2028
Land: Recreation Park Drive	\$257,625	2033
Roads	\$56,050	2037+

Total	\$1,771,926	

* Excludes debt for project paid through Enterprise Funds, User Fees, other sources

Source: 15 year debt schedule, Ad Com financial model

Annual Debt Service Expense: Non-Excluded Debt

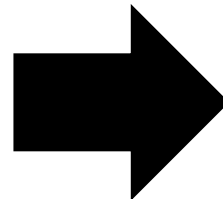
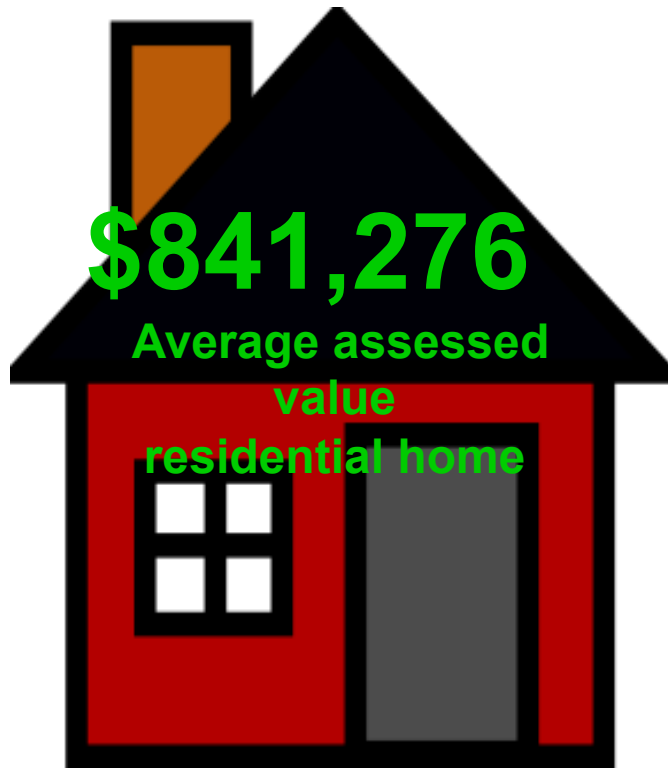


Unused non-excluded debt capacity:

FY18: \$ 18,267 FY20E: \$ 90,991

FY19: \$107,532 FY21E: \$166,205

The current year property tax bill on the average assessed value residential home is just over \$10,000



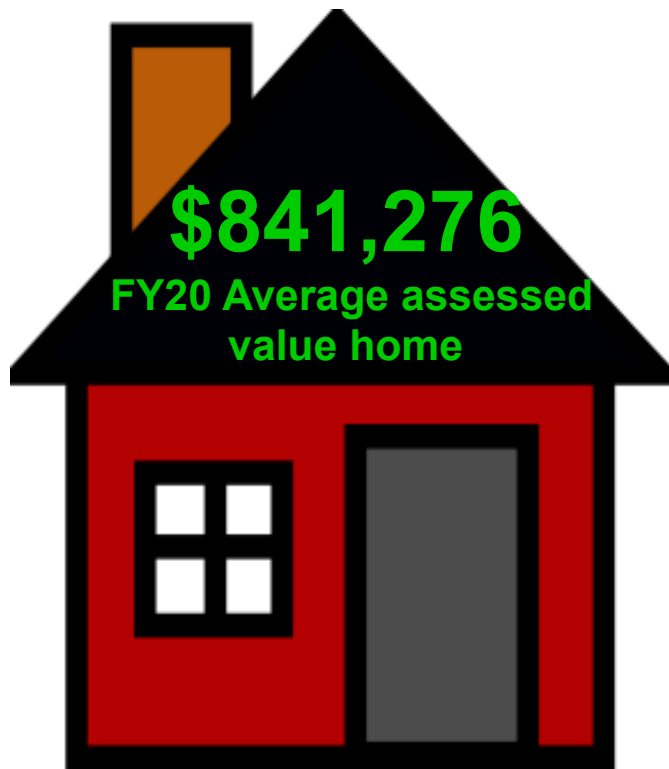
Average tax bill exceeds limit of property tax deduction



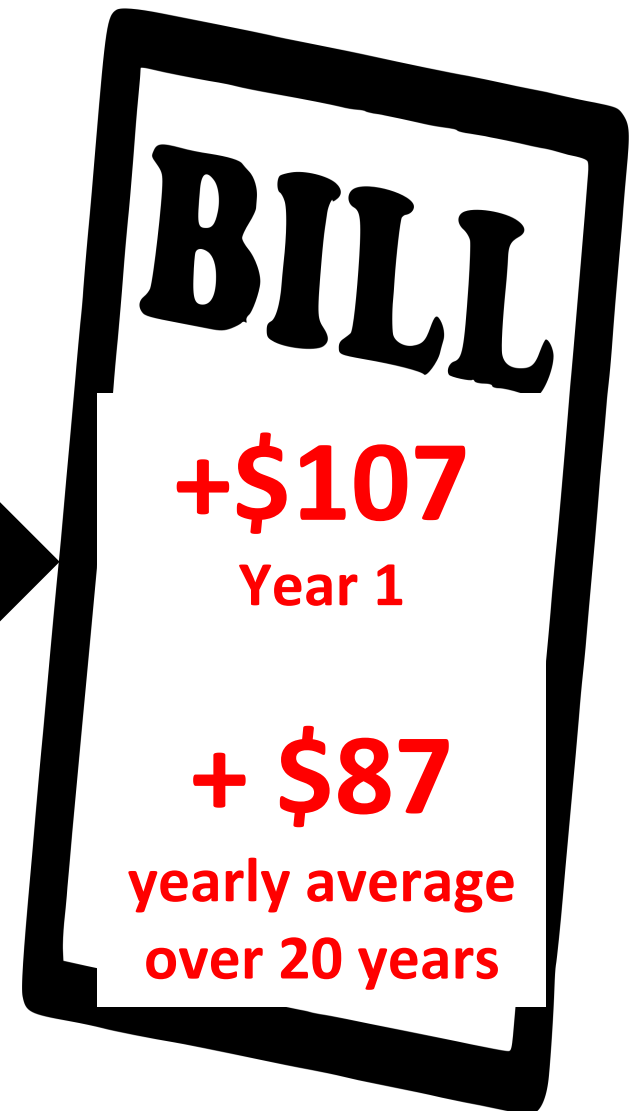
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Every \$10 million in new excluded debt results in a Year 1 tax increase of \$107 for the average assessed value home



**\$10 million in
new excluded
debt**



Tax impact of new excluded debt on average assessed value home (\$841,276)



Amount of new excluded debt	Year 1 tax bill impact	Average yearly tax bill impact over 20 years	Total average tax bill impact over 20 years
\$10 million	\$ 107	\$ 87	\$1,740
\$20 million	\$ 214	\$174	\$3,480
\$30 million	\$ 321	\$261	\$5,220
\$40 million	\$ 428	\$348	\$6,960
\$50 million	\$ 535	\$435	\$8,700
\$75 million	\$ 803	\$654	\$13,080
\$100 million	\$1,070	\$870	\$17,400

Amounts are **incremental** to tax increase allowed under Proposition 2 ½ + CPC (app. \$250 per year for avg assessed value home)

Forecasted Interest Rates and Sensitivity Analysis



- The Town's financial advisors recommend budgeting a 3.5% interest rate for capital projects
- Scenario: \$50 million borrowing

Interest Rate	Year 1 Debt Service cost	Year 1 tax bill impact: Average Assessed value home
3.50%	\$4,250,000	\$ 535
3.25%	\$4,125,000	\$ 519
3.00%	\$4,000,000	\$ 504

What is the Town doing to mitigate the taxpayer impact of new capital projects?



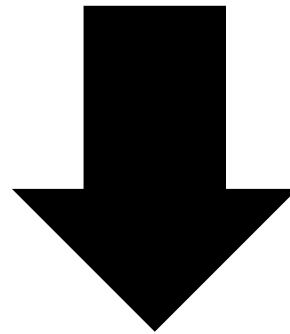
- 1. Explore additional targeted tax relief options**
 - 2019: Board of Selectmen proposed, and Town Meeting adopted, Senior means tested Property Tax circuit breaker
 - 2020: Need to identify funding source
- 2. Identify town assets that could help defray cost to taxpayers**
 - Excess unrestricted fund balance as tax relief
 - Sale of Town assets
- 3. Pursue grant/funding opportunities**
- 4. Explore public/private partnerships where it makes sense**
- 5. Evaluate appropriate commercial development (South Hingham Study Group)**

Impact of using Excess Fund Balance as Tax Relief



Scenario:

- \$50 million in new excluded debt
- \$5 million tax relief - \$ 1 million per year for 5 years



Average Assessed Value Home	Years 1-5 total	Years 1-5 average	
Tax increase without tax relief	\$2,565	\$513	} 24% reduction
Tax increase with \$5 million in tax relief	\$1,950	\$390	

Taxpayer Impact of MSBA Reimbursement for Foster School: Average Assessed Value Home (\$841,276)



- **Assumption: 35% MSBA Reimbursement**

Total project cost (\$ millions)	35% MSBA reimbursement (\$ millions)	Year 1 Taxpayer Impact of 35% MSBA Funding
\$30 million	\$10.5 million	\$112
\$40 million	\$14.0 million	\$150
\$50 million	\$17.5 million	\$187
\$60 million	\$21.0 million	\$225



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Conclusions

- **All Hingham taxpayers pay for capital projects**
 - All our constituents are the entire Town
- **Debt is not “free money”**
 - We pay for most projects for 20 years
- **We are below the limit of debt service levels defined in the Town Financial Policy**
 - Significant amounts of debt retiring by FY2028
- **Major capital projects cannot be fully funded within the operating budget**
 - Will require a debt exclusion

Conclusions



- **Debt exclusion = 20 year tax increase**
 - Must consider taxpayer impact when considering the need, timing, and scope of projects under consideration
 - May need to reduce scope, defer, or “say no” to some projects
- **Excess fund balance can provide some tax relief**
 - Town Financial Policy defines potential uses
 - Dollars will only go so far – need to choose how to use them wisely
- **Live within our operating budget → No overrides**



Additional Observations

- **Important to continue funding our long-term liabilities according to their funding schedules**
- **Board of Selectmen remains concerned that capital projects that are funded through a warrant article instead of the Capital Outlay process (e.g., Town Hall roof, High School gym windows):**
 - **Do not benefit from the Capital Outlay vetting process**
 - **Are not “counted” as capital spending per the Town Financial Policy**
 - **Reduce non-excluded debt capacity**
 - **Result in more of total available revenue being allocated to capital – and not available to fund operating budgets**